Pizza Hut, Inc. Annual Report 1974




Contents

Annual Meeting

The Annual Meeting of Shareholders will be held at 9:00 A. M., Monday, August 12, 1974, at the Corporate Offices, Wichita, Kansas. A formal notice of the meeting, together with proxy material, is being sent separately to shareholders.

Corporate Offices

10225 E. Kellogg
Wichita, Kansas 67207
Tel: (316) 687-4111

Corporate Data

Common Stock
Stock symbol: PIZ — Traded NYSE
Transfer Agents: First National City Bank, New York City, and First National Bank in Wichita.
Registrars: First National City Bank, New York City, and The Fourth National Bank & Trust Co., Wichita.

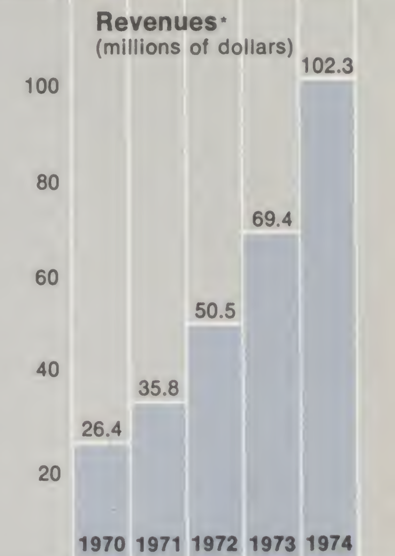
Auditors

Ernst & Ernst
Wichita, Kansas

10-K Report Available

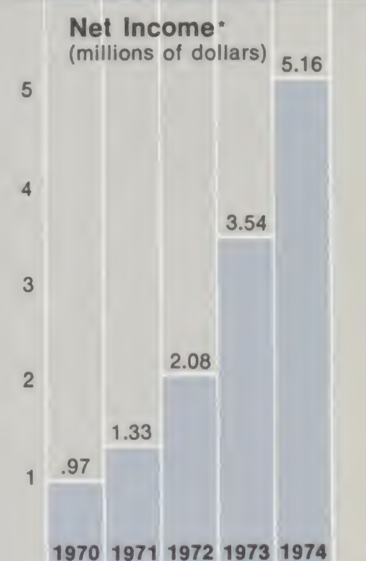
A copy of Pizza Hut, Inc.'s 10-K Report filed with the Securities and Exchange Commission for 1974 can be obtained by writing to:

A. Tracy Burton
Director of Investor Relations
Pizza Hut, Inc.
P. O. Box 428
Wichita, Kansas 67201



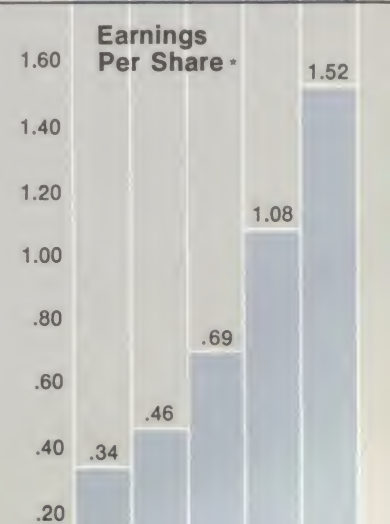
Quarterly Review

	1974			1973 (Restated)		
	Sales	**Net Income**	**Earnings Per Share**	Sales	Net Income	Earnings Per Share
First Quarter Ended June 30 . . .	**$21,417,271**	**$1,212,547**	**$ .36**	$14,733,815	$ 814,399	$ .26
Second Quarter Ended Sept. 30 . . .	**$24,529,241**	**$1,364,513**	**$ .40**	$16,681,263	$ 898,509	$ .28
Third Quarter Ended Dec. 31 . . .	**$25,868,699**	**$1,383,791**	**$ .41**	$17,446,551	$ 949,015	$ .28
Fourth Quarter Ended March 31 . .	**$26,594,226**	**$1,200,874**	**$ .35**	$18,185,461	$ 873,199	$ .26
TOTAL	**$98,409,437**	**$5,161,725**	**$1.52**	$67,047,090	$3,535,122	$1.08



Highlights

	1974	1973 (Restated)
Total Revenue	**$102,319,176**	$ 69,441,670
Net Income	**$ 5,161,725**	$ 3,535,122
Earnings Per Share	**$ 1.52**	$ 1.08
Working Capital	**$ 8,176,870**	$ 5,486,116
Total Assets	**$ 51,484,513**	$ 36,622,061
Stockholders' Equity	**$ 27,948,857**	$ 22,565,947



*All prior years restated

Message from management, 1974

Frank L. Carney
President, Chairman of the Board, and Chief Executive Officer

The purpose of this message is to give you, the reader, a clear, current picture of Pizza Hut, Inc., and its potential. We will accomplish this by (a) reviewing the major events of fiscal 1974, (b) describing our major strengths and growth strategy, and (c) providing a glimpse of our future.

Other sections of the report will answer certain questions posed to your management and indicate PHI performance of past management statements. This will be followed by a presentation of the financial position of the company.

Review of fiscal '74

Fiscal '74 was a year plagued with increased Government controls, an energy crisis, inflationary pressures, and concerned consumers. In the first six months (ended September 30, 1973) comparable unit sales were up 16 percent from the prior year. Energy and inflation fears, along with the historical lag in national network advertising during January and February, lowered the comparable increases during December, January, and February to the 9-10 percent level. It is important to point out that even without the 4.5 percent price increase (instituted 4/1/73) the Pizza Hut units experienced real growth during this critical period. With resumed national advertising and increased fuel availability, March sales rebounded and we ended the year with average comparable increases in unit volume of 14.1 percent. This, coupled with 357 additional units added to the PHI system, allowed us to accomplish our fifth year of 40 percent compounded growth in sales, net income, and earnings per share. We are justifiably proud of this accomplishment.

Other developments during the year included:

—Sale of the Next Door and Flaming Steer restaurant operations.

—Opening of a distribution center in Georgia and moving the Wichita distribution center to Dallas, Texas, to centralize service and minimize transportation costs.

—Opening of our first company and franchise units in England and a joint venture unit in Japan.

—Beginning the implementation of our Cavatini and spaghetti pasta program to give our consumers a wider choice on our menu.

—Implementation of a new formal in-store training program (FIST) to insure high quality service and products to our consumers.

—Maintaining of our successful Corporate Overhead Expense Control Program.

zza Hut, Inc., has five major strengths

• We are a part of the dynamic segment the food industry. Food eaten away from ome is growing rapidly — one in four meals 1965 to one in three in 1970, and it is predicted at half of all meals will be eaten away from ome in the late 1980's.

• The Pizza Hut unit is correctly positioned r the future. Many chains are switching from edominately counter-take out service to a ombination of take-out and dine-in service, hich has been our basic format since our eginning.

• Our basic product, pizza, is number one the fast growing ethnic food category. As ating away from home increases, the consumer oks for variety. Our new pasta program ovides our entry into the second largest hnic food category — other Italian foods.

• Effective control of the supply of our ecessary products through our warehousing nd distribution subsidiary, FSI, and its three ssociate distributors.

• Last, but not least, is the PHI system's anagement strength. The franchise units are perated by a large successful group of ultiple unit management teams. The 600 idely dispersed company units are controlled a capable field operations group backed home office strength in operations, arketing, real estate, research and development, training, and general management. This ombination of strengths provides the company ith ample management resources for future rowth and continued profitability.

Growth Strategy

With these strengths the Pizza Hut growth strategy is:

—To build a solid base by continued concentration of our resources on the growth of our domestic Pizza Operations. This is being accomplished by two programs.

a. Increasing sales and profits of existing units. We will achieve the objective by combining experience in operations with increased advertising expenditures (emphasizing television) and new product introductions, such as the new pasta program.

b. A balanced program of new unit expansion. Our five-year development plan emphasizes growth in all types of markets: low risk, high volume small communities, high volume well advertised areas, low volume areas where additional units are needed to bolster advertising efforts, and new metro market penetrations with high risk. The PHI system, franchise and company, will open in excess of 350 units again in the coming year.

—Continuing the support of our domestic Pizza Hut operations with the expansion of our distribution and warehousing system, Franchise Services, Inc.

—Continuing the development and controlled growth of our foreign markets. Franchising on the European continent will begin this year along with additional expansion by the company in successful, as well as emerging, foreign markets.

—Providing a solid financial base for orderly growth. Our fiscal '75 development plan is provided for by our existing assets, cash flow, and current financing commitments.

—Continuing to develop our well trained, professional management group at all levels of the organization.

About the future

One of the most significant events in the history of the company was announced after the close of our fiscal year. On April 10, 1974,

Pizza Hut, Inc. and Pizza Corporation of America announced a preliminary agreement to merge and subsequently on May 23, 1974, signed a definitive merger document. Pizza Corporation of America, with 186 units in operation at year end, is our largest franchisee. Reported revenues and net income of PCA were $24,226,971 and $2,150,487, respectively, for the fiscal year ended March 31, 1974. The merger calls for .55 share of Pizza Hut, Inc. common stock to be exchanged for one share of common stock of Pizza Corporation of America. The Board of Directors of each corporation have approved the agreement, and special stockholder meetings will be held in August or September to consider the merger. A prospectus covering all pertinent information will be sent to stockholders with notice of the special meeting.

The future for the Pizza Hut system and Pizza Hut, Inc. is exciting. There are over 1,500 units open as of this writing. We are adding units at a rate approaching one each day. Average unit volumes will continue to increase. In our industry two systems have reached the one billion dollar annual sales level. The Pizza Hut system can reach that goal in the early 1980's. This will not be achieved with a crash program of expansion but rather with steady, consistent, planned growth by the company and our franchisees. The greatest challenge we face as a company is managing our long-term growth with professional consistency. We will continue to address ourselves to this task and are dedicated to its accomplishment.

Frank L Carney

Frank L. Carney

President, Chairman of the Board,
and Chief Executive Officer

Officers and Directors

Officers

Foreground: (left to right)

Farris S. Farha
Senior Vice President
Administration

Robert E. Cressler
Senior Vice President
Operations

Frank L. Carney
President,
Chairman of the Board,
and Chief Executive Officer

William C. Ferril
Senior Vice President
& Chief Financial Officer

Back: (left to right)

Larry F. Payne
Vice President
Franchise

M. Hal Taylor
Ph. D., Vice President
Distribution & Food Processing

Joseph P. Flynn
Vice President
International

Kenneth R. Miller
Vice President
Pizza Operations

John H. Songer
Vice President
Property Management

Daniel J. Taylor
Treasurer &
Chief Accounting Officer

Gerald T. Aaron
Secretary
& Counsel

Albert J. Kirk
Assistant Secretary
& Associate Counsel

Robert L. Logsden
Vice President
Marketing & Research

Board of Directors
(left to right)

Louis Pozez
President
Volume Shoe Corporation

G. E. Engleman
Chairman of the Board
Union Bank of Ft. Worth and
First National Bank, Hurst, Texas

Daniel M. Carney
Investments

Frank L. Carney
President,
Chairman of the Board,
and Chief Executive Officer

Martin T. Hart
Investments

King D. Shwayder
President
Samsonite Corporation


Management responds to the questions most asked by shareholders and security analysts during 1974.

Q. There are certain advantages in food costs with ethnic foods. Could you discuss your food costs in the past and what you believe the future holds?
A. In our pizza operations, food costs for the year just ended were 30.6 percent, which compares to 28.5 percent last year. Ethnic foods typically do not rely on one basic ingredient. Of the 30.6 percent less than one-third is represented by any one basic ingredient. Our 7.5 percent price increase, effective April, 1974, will keep our food costs within our planned objectives.

Q. Although your primary product is pizza, do you see the addition of your new pasta products altering your basic concept?
A. No, pizza will continue to be our basic product. Our franchisee-proven pasta line was adapted by our research and development group to utilize our existing store talent and equipment. Some additional equipment and training is required and is the reason for our implementation schedule stretching into September, 1974.

Q. What is Pizza Hut, Inc. doing about the energy crisis?
A. Situation is a much better word than "crisis." As a matter of fact, the situation is also an opportunity and a challenge. The opportunity is one of decreasing operating costs through planned conservation of energy along with an increasing consumer awareness that food away from home is the best energy value. The challenge is one of decreasing energy usage per meal, thereby increasing productivity. PHI is a member of the Food-service Alliance for the Conservation of Energy (FACE), a group comprised of top industry leaders, and has a written comprehensive plan for long-term energy reduction per unit.

Q. Last year your television ads featured Rich Little and were highly innovative. Why did you change?
A. Three years ago our consumer surveys indicated we had an awareness problem. In the past two years Rich Little and the commercials did an excellent job of overcoming that weakness. Our recent studies show we have achieved awareness of the name Pizza Hut, but the consumer did not understand what we offer as compared to their "ideal" pizza restaurant. Our current advertising theme, "Our people make our pizza better," explains the consumer benefits of friendly table service, warm atmosphere, and quality pizza.

Q. Pizza Hut, Inc. has not paid a dividend. Can the shareholders look forward with any hope to a future dividend?
A. PHI is a growth company.Our long-term goal of consistent growth in earnings per share is closely linked with consistent growth in return to the shareholders. We will initiate a dividend policy when we can adequately finance both our planned growth and the desired level of dividends.

Q. You have not said very much about your Mexican food division. What is your current situation?
A. Our Taco Kid program and units have been renamed "Fiesta Cantina." Average sales were up 21.8 percent over last year. A new unit has been opened in Des Moines, Iowa, incorporating our latest modifications and its

volume is 49.8 percent above the combined average of all units. With the corporate restraint of growth within its own cash flow, this division plans three new units in fiscal '75.

Q. You sold the Flaming Steer and Next Door restaurant operations and your Fiesta Cantina program is moving slowly. Does this mean you are finished with diversification?

A. No, we are in the food service business. We are developing a top management team and the financial capability that will afford us future opportunities. Selling those operations is just recognizing mistakes of the past in selecting the wrong direction for us at the time.

Q. What can we expect from your foreign operations?

A. We have stated in the past that we foresee no substantial profit from foreign operations for four to five years. We are in a development stage — learning, growing, and making mistakes. During fiscal '74 Australia and Mexico were profitable; Canada, Germany, Japan, and England were not.

Q. Training appears to be a big part of Pizza Hut, Inc.'s success. Could you comment on your training program?

A. We have a well trained staff and an excellent training facility at our home office. Classes are conducted 33 weeks of the year and are open to franchise personnel as well as company employees. Our main program is a three-week course completed in one-week segments separated by at least two months back on the job. The course is required training for area general managers, the cornerstone of PHI management. Other courses are offered for other levels of management. Operational training is conducted by an in-store training program called FIST — Formal In-Store Training. This is a sound-on-film program backed by the operational manual.

Q. Because of your lower unit volume in relationship to the other fast food restaurants, it would appear you must open a much greater number of units to achieve your sales growth. What are your comments on this?

A. Any disadvantages of our sales volume average as compared to other fast food restaurants are insignificant when you consider the excellent leverage opportunity afforded us in building from our present volume base of approximately $140,000 per unit. There are many reasons why sales volume per unit will increase, including greater seating capacity with our larger buildings, marketing and research capabilities, increased national television and local ADI (area of dominant influence) television expenditures, and new product introduction.

Q. What is the total pizza market in the United States and how do you compare to your competitors?

A. We estimate the total pizza market in the United States to be $1,800,000,000, of which 80 percent is attributed to sales in pizza restaurants. Nationally, our system enjoys 13.4 percent of all restaurant-prepared pizza eating occasions while our nearest competitor's share is less than 10 percent.

Q. Could you comment on your management? With the growth rate Pizza Hut, Inc. has experienced, it appears pizza is almost secondary to management of the organization.

A. I think this is true for any growth company. The question is not whether pizza is going to sell; it's "Can we manage the growth?" We've experienced a growth rate of 40 percent compounded annually over the last five years. This is not because we planned for the exceptional growth but, rather, because the opportunity presented itself and with our management base we were able to take advantage of it. We know we cannot sustain this type of growth with our larger sales base, but our challenge is to manage the growth to its optimum level. We believe in long-range planning and have a five-year written plan which is revised annually. Our officer group has an average of twelve years' experience in the food industry, and their average age is 36. The prudent use of consultants, dedication, and our increasing professionalism will keep us equal to the challenges.

"Our people make our pizza better"

Five Year Summary:

Pizza Hut, Inc. is principally engaged in the operation, development, franchising and servicing of Pizza Huts, which are casual family restaurants primarily engaged in the sale of pizza. In addition Pizza Hut, Inc. manufactures certain fixtures and supplies, processes some pizza ingredients, and purchases, warehouses, and distributes equipment, supplies, and food products for use in its Pizza Hut units and sale to franchisees. Pizza Hut, Inc. operates a limited number of Mexican food restaurants and, until recently, operated a few charcoal-broiled hamburger restaurants and steak restaurants. Pizza Hut, Inc. recently sold its interest in Ready Italy, Inc., a manufacturer of frozen pizza pie crusts. The frozen crusts were not used in Pizza Hut restaurants, but were sold to frozen pizza pie manufacturers.

Each activity is shown in these tables by the respective amounts and percentages of revenues and of contribution to consolidated income before general and administrative expenses attributable to the home office and income taxes. Pizza Hut, Inc. believes that allocating such expenses and taxes would be arbitrary due to the close relationship and interdependency of all company activities. Expenses (other than general and administrative expenses attributable to the home office) related to "franchise fees" have been allocated to company Pizza Hut restaurants.

The table at right includes for all periods the sales by businesses acquired by the company from March 31, 1969, in transactions accounted for as poolings of interest and eliminates intercompany transactions.

Revenues and Contribution to Income
Pizza Hut, Inc. and Subsidiaries

Fiscal Years ended March 31
(Dollars in Thousands)

	1974		1973*		1972*		1971*		1970*	
REVENUES:										
Company Pizza Huts ...	$ 75,195	73.5%	$54,571	78.7%	$40,028	79.3%	$28,129	78.7%	$21,958	83.3%
Sales to Franchisees ..	20,282	19.8	8,434	12.1	4,942	9.8	3,135	8.8	2,330	8.8
Other Restaurants ..	2,866	2.8	3,761	5.4	3,663	7.3	2,879	8.0	1,116	4.2
Frozen Pizza Crusts	66	.1	281	.4	373	.7	411	1.1		
Franchise Fees:										
Initial	1,000	1.0	711	1.0	433	.9	375	1.0	460	1.7
Continuing ...	2,910	2.8	1,684	2.4	1,024	2.0	844	2.4	524	2.0
	$102,319	100.0%	$69,442	100.0%	$50,463	100.0%	$35,773	100.0%	$26,388	100.0%
CONTRIBUTION TO INCOME:										
Company Pizza Huts ...	$ 11,504	77.1%	$ 8,401	82.3%	$ 6,175	92.6%	$ 3,816	89.8%	$ 2,284	68.7%
Sales to Franchisees ..	439	2.9	323	3.2	194	2.9	47	1.1	175	5.3
Other Restaurants ..	(916)	(6.1)	(649)	(6.4)	(1,080)	(16.2)	(850)	(20.0)	(116)	(3.5)
Frozen Pizza Crusts	(17)	(.1)	(261)	(2.6)	(72)	(1.1)	16	.4		
Franchise Fees:										
Initial	1,000	6.7	711	7.0	433	6.5	375	8.8	460	13.8
Continuing ...	2,910	19.5	1,684	16.5	1,024	15.3	844	19.9	524	15.7
	$ 14,920	100.0%	$10,209	100.0%	$ 6,674	100.0%	$ 4,248	100.0%	$ 3,327	100.0%
General and Administrative Expenses Attributable to Home Office ...	4,706		3,414		2,618		1,985		1,383	
Income Before Income Taxes ..	$ 10,214		$ 6,795		$ 4,056		$ 2,263		$ 1,944	

*Restated

Many of our past goals were accomplished in 1974

"This year the average Pizza Hut should do $135,000 in sales volume."
–Presentation before the Dallas Association of Investment Analysts, October 10, 1973

During the year just ended the average sales volume of company-owned units was over $140,000, as compared to the previous year's average of $123,000. We were able to achieve this volume increase with less than a 4½ per cent price increase to our consumer.

"Although there are many excellent one and two unit franchised operations the main impetus for growth comes from our multiple operations groups. Our top ten groups, for instance, own in excess of 230 units and next year plan a minimum of an additional 70 units."
–Annual Report, 1971

The multiple operation continues to provide the main growth of our franchised units. We are proud that today the top ten groups have 456 units, almost double the number in our 1971 annual report.

"We plan to build 100 more company units in addition to the 180 contemplated by franchisees."
–Annual Report, 1973

We ended the year with 1,487 units in the Pizza Hut system. The company opened 84 and acquired 49 units; the franchisees opened 273 for a total of 357 new units compared to 275 for Fiscal 1973.

"Recently FSI started its own delivery system serving all company Huts in Oklahoma and Kansas, as well as parts of Texas and Mid-Missouri, further reducing warehouse costs and general overhead. We plan to expand this successful program further during Fiscal 1971."
–Annual Report, 1970

Today FSI has distribution centers in Texas, Illinois, Georgia, and an equipment center in Wichita, Kansas. The delivery system has been expanded to serve 1,100 Pizza Hut restaurants in 25 states on a weekly basis. In these times of fuel crisis and chronic shortages we believe that our internal purchasing, warehousing, and distribution system is a major strength for our continued growth.

"Our overseas activities are on target and two Pizza Huts are now open in Australia and West Germany. Eleven franchised units were in operation in Mexico and Canada at the end of Fiscal 1970. Consumer acceptance of pizza in foreign markets has lived up to our projections and international expansion will be very much a part of future corporate growth."
–Annual Report, 1970

Seventy-two Pizza Hut restaurants are now open in seven foreign countries. Australia represents our largest market penetration with forty units followed by Canada with fourteen, Mexico with seven, Germany with five, England with three, Costa Rica with two, and one in Japan. Of the seventy-two total, forty are company and thirty-two are franchised. We will continue a carefully planned program of introducing Pizza Hut restaurants into the world market.

Financial Review 1974

March 31, 1974 and March 31, 1973

Statements of Consolidated Income

Pizza Hut, Inc. and Subsidiaries

	Years ended March 31, 1974	1973
Net sales		
Restaurant	**$78,127,425**	$58,613,584
Product sales to franchisees	**20,282,012**	8,433,506
TOTAL NET SALES	**98,409,437**	67,047,090
Cost of sales		
Restaurant	**24,008,407**	17,176,593
Product sales to franchisees	**17,458,092**	6,195,699
TOTAL COST OF SALES	**41,466,499**	23,372,292
GROSS PROFIT	**56,942,938**	43,674,798
Initial franchise fees	**999,500**	711,000
Continuing franchise fees	**2,910,239**	1,683,580
Equity in net income or losses of unconsolidated foreign subsidiaries and minority-owned affiliates	**16,092**	151,436
	60,868,769	46,220,814
Selling, general, and administrative expenses	**50,781,393**	39,269,791
	10,087,376	6,951,023
Other income (including interest: 1974 — $785,709; 1973 — $364,741)	**1,074,545**	507,737
	11,161,921	7,458,760
Interest expense	**947,696**	663,848
INCOME BEFORE INCOME TAXES	**10,214,225**	6,794,912
Federal and state income taxes — Note I	**5,052,500**	3,259,790
NET INCOME	**$ 5,161,725**	$ 3,535,122
Net income per share:		
Primary — assuming exercise of options and warrants	**$1.53**	$1.08
Fully diluted — assuming, in addition, conversion of convertible notes	**$1.52**	$1.08

See notes to consolidated financial statements.

Consolidated Balance Sheets

Pizza Hut, Inc. and Subsidiaries

	March 31, 1974	March 31, 1973
ASSETS		
CURRENT ASSETS		
Cash	**$ 4,253,935**	$ 2,313,599
Certificates of deposit	**5,700,000**	4,700,000
Receivables:		
Notes	**77,646**	321,787
Trade accounts	**3,095,286**	1,557,035
Other accounts	**208,111**	770,793
Allowance for doubtful notes and accounts	**(115,000)**	(65,000)
	3,266,043	2,584,615
Inventories	**4,640,831**	2,687,120
Prepaid expenses	**332,544**	327,005
TOTAL CURRENT ASSETS	**18,193,353**	12,612,339
INVESTMENTS AND OTHER ASSETS		
Investments in and advances to unconsolidated affiliates:		
Foreign subsidiaries	**2,841,209**	1,444,129
Other affiliates	**1,048,818**	601,408
	3,890,027	2,045,537
Cost in excess of net assets of businesses acquired	**2,468,238**	1,642,565
Patents, service marks, and franchises	**497,941**	435,257
Notes receivable (less allowance of $50,000 in 1973)	**370,358**	589,064
Other accounts	**1,056,194**	900,030
	8,282,758	5,612,453
PROPERTY, PLANT, AND EQUIPMENT — Note C		
Land	**5,582,809**	3,604,792
Buildings and improvements	**4,465,157**	2,636,114
Leasehold improvements	**5,917,992**	4,869,942
Operating equipment	**13,574,092**	10,770,438
	29,540,050	21,881,286
Allowances for depreciation and amortization (deduction)	**(5,865,398)**	(4,486,562)
	23,674,652	17,394,724
DEFERRED CHARGES		
Organization expense	**261,603**	305,135
Deferred income taxes	**878,000**	379,000
Other	**194,147**	318,410
	1,333,750	1,002,545
	$51,484,513	$36,622,061
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	**$ —**	$ 141,953
Trade accounts payable	**4,160,454**	2,347,708
Taxes, other than income	**1,124,862**	913,988
Federal and state income taxes	**2,983,727**	2,153,919
Other accrued expenses	**843,917**	688,796
Current portion of long-term debt	**903,523**	879,859
TOTAL CURRENT LIABILITIES	**10,016,483**	7,126,223
LONG-TERM DEBT — less portion classified as current liability — Note C	**11,980,173**	6,136,891
DEFERRED INITIAL FRANCHISE FEE INCOME	**739,000**	793,000
ESTIMATED FUTURE LEASE COSTS — Note D	**800,000**	
STOCKHOLDERS' EQUITY — Note F		
Preferred Stock — $0.01 par value		
Authorized 1,000,000 shares; none issued	**—**	—
Common Stock — $0.01 par value		
Authorized 10,000,000 shares; issued and outstanding 3,309,014 shares in 1974 and 3,287,354 shares in 1973	**33,090**	32,873
Other capital	**362,547**	362,547
Additional paid-in capital	**14,105,660**	13,884,692
Retained earnings	**13,447,560**	8,285,835
	27,948,857	22,565,947
LEASES AND CONTINGENT LIABILITIES — Notes G and H		
	$51,484,513	$36,622,061

See notes to consolidated financial statements.

Statement of Consolidated Stockholders' Equity

Pizza Hut, Inc. and Subsidiaries

Years ended March 31, 1974 and March 31, 1973

	Common Stock Shares	Common Stock Amount	Other Capital	Additional Paid-in Capital	Retained Earnings
Balance at April 1, 1972:					
As previously reported	2,914,265	$29,143	$362,547	$ 7,495,378	$ 4,935,277
Adjustment for acquisition of pooled companies — Note B	100,440	1,004		25,585	(170,264)
As restated	3,014,705	30,147	362,547	7,520,963	4,765,013
Acquisition of pooled companies formed in 1973 — Note B	15,560	156		8,844	
Exercise of employee stock options — Note F	4,148	41		37,212	
Amounts received under stock option plan to extend options previously granted				4,275	
Sale of warrants to purchase 35,000 shares — Note C				78,750	
Sale of Common Stock	250,000	2,500		6,209,627	
Conversion of an 8% Convertible Note — Note C	2,941	29		24,971	
Dividends and other capital transactions of pooled companies before acquisition				50	(14,300)
Net income					3,535,122
BALANCE AT MARCH 31, 1973	3,287,354	32,873	362,547	13,884,692	8,285,835
Exercise of employee stock options — Note F	12,837	129		115,808	
Amounts received under stock option plan to extend options previously granted				8,248	
Conversion of 8% Convertible Note — Note C	8,823	88		74,912	
Capital transactions of pooled companies before acquisition				22,000	
Net income					5,161,725
BALANCE AT MARCH 31, 1974	**3,309,014**	**$33,090**	**$362,547**	**$14,105,660**	**$13,447,560**

See notes to consolidated financial statements.

Statements of Changes in Consolidated Financial Position

Pizza Hut, Inc. and Subsidiaries

	Years ended March 31, 1974	1973
SOURCE OF FUNDS		
Net income	**$ 5,161,725**	$ 3,535,122
Charges to income not affecting funds:		
Depreciation and amortization	**2,148,226**	1,609,366
Increase in deferred income taxes	**(379,000)**	(215,000)
Provision for future lease costs	**800,000**	
Equity in net income of unconsolidated foreign subsidiaries and other affiliates	**(16,092)**	(151,436)
TOTAL FROM OPERATIONS	**7,714,859**	4,778,052
Proceeds from long-term debt	**8,024,943**	1,056,848
Disposals of property, plant, and equipment	**7,008,249**	1,590,031
Increase in deferred initial franchise fees		281,117
Issuance of Common Stock and Common Stock warrants		6,290,877
Other items	**221,185**	61,278
	22,969,236	14,058,203
APPLICATION OF FUNDS		
Acquisition of assets of businesses purchased:		
Property, plant, and equipment	**878,657**	295,126
Franchise rights and other assets	**128,327**	59,684
Cost in excess of net assets acquired	**980,694**	304,059
Long-term debt assumed	**(241,554)**	
	1,746,124	658,869
Additions to property, plant, and equipment	**14,343,090**	7,078,558
Reduction of long-term debt	**2,423,215**	1,395,757
Decrease in deferred initial franchise fees	**54,000**	
Investments in and advances to unconsolidated foreign subsidiaries and other affiliates	**1,628,398**	940,792
Other items	**83,655**	248,488
	20,278,482	10,322,464
INCREASE IN WORKING CAPITAL	**$ 2,690,754**	$ 3,735,739
INCREASE (DECREASE) IN WORKING CAPITAL BY COMPONENT		
Cash	**$ 1,940,336**	$ (100,184)
Certificates of deposits and marketable securities	**1,000,000**	3,600,000
Trade and other receivables	**681,428**	1,111,729
Inventories	**1,953,711**	958,649
Prepaid expenses	**5,539**	14,763
Notes payable and current portion of long-term debt	**118,289**	324,921
Trade accounts payable and accrued expenses	**(2,178,741)**	(1,405,265)
Income taxes	**(829,808)**	(768,874)
INCREASE IN WORKING CAPITAL	**$ 2,690,754**	$ 3,735,739

See notes to consolidated financial statements.

March 31, 1974 and 1973

NOTE A — ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all domestic subsidiaries after elimination of significant intercompany accounts and transactions.

FOREIGN SUBSIDIARIES AND OTHER AFFILIATES

Investments in wholly-owned subsidiaries in Australia, Canada, Germany, Mexico, Japan and England and investments in certain minority-owned domestic affiliates are carried at cost plus equity in net income of the foreign subsidiaries and domestic affiliates.

The Company's equity in the net income of significant foreign subsidiaries is determined by translating the subsidiaries' financial statements to U.S. dollars using the current-noncurrent method. Under this method, current assets and liabilities are translated at the exchange rate in effect at the close of the period, long-term assets and liabilities are translated at the rates in effect at the dates the assets were acquired or the obligations incurred, and revenue and expense accounts, except for depreciation and amortization, are translated at a weighted average rate in effect during the year. Depreciation and amortization are translated at the rates in effect at the dates the related assets were acquired. Exchange adjustments, which are not material, are charged or credited to income.

Because the Company plans to continue to finance foreign expansion and operating requirements by reinvestment of undistributed earnings of its foreign subsidiaries, United States income taxes have not been provided on such earnings. The amount of undistributed earnings at March 31, 1974, which is considered to be indefinitely reinvested is approximately $369,000.

INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market.

PROPERTY, PLANT, AND EQUIPMENT AND DEPRECIATION POLICIES

Property, plant, and equipment is carried on the basis of cost and depreciation is determined principally by the straight-line method over the following ranges of useful lives:

Buildings and improvements	20 to 30 years
Operating equipment	3 to 10 years
Leasehold improvements	Term of lease

AMORTIZATION POLICIES

Amortization of intangibles and deferred charges is determined principally by the straight-line method. The cost in excess of net assets of businesses acquired prior to October 31, 1970 ($435,784) is not amortized since, in the opinion of management, there has been no diminution in value. Such amounts acquired after October 31, 1970 ($2,497,550 including amounts attributable to unconsolidated subsidiaries and affiliates) are amortized over a forty-year life. Franchise rights, deferred debt expense, and organization costs are amortized over fifteen-year lives. Deferred site development costs are amortized over five-year lives.

INITIAL FRANCHISE FEE INCOME

Upon the sale of a franchise, the Company records the amount received or receivable as an asset and the fee as deferred franchise fee income. The initial franchise fee is recorded as income when the retail unit has been opened by the franchisee.

INVESTMENT TAX CREDITS

Investment tax credits are accounted for using the flow-through method.

NET INCOME PER SHARE

Employee stock options, warrants attributable to the 8¾% Senior Notes, and options under a director's deferred compensation plan are considered to be Common Stock equivalents in the computation of primary net income per share using the treasury stock method applied at the average market price during the period.

In the computation of fully-diluted net income per share, the Common Stock equivalents plus the shares issuable in the assumed conversion of convertible notes are considered and interest expense (net of applicable income taxes) attributable to the convertible notes is added to net income. The treasury stock method is applied to Common Stock equivalents at the year end market price if higher than the average market price.

NOTE B — ACQUISITIONS

The Company acquired 28 Pizza Hut restaurants in 1974 and 45 Pizza Hut restaurants (including 7 Canadian restaurants) in 1973 in exchange for 112,440 and 342,655 shares respectively of the Company's Common Stock in transactions accounted for as poolings of interests. The accompanying 1973 financial statements have been restated to include the units pooled in 1974. This restatement increased net sales by $2,593,871 and net income by $29,728, and decreased primary net income per share by $.03 and fully diluted net income per share by $.02 from amounts previously reported. Following is a summary of the results of operations of pooled companies (after elimination of inter-company transactions) in-

cluded in the accompanying financial statements for periods prior to the respective dates of acquisition:

	1974	1973
Net sales	$330,964	$3,644,601
Equity in net income of unconsolidated foreign subsidiary		5,259
Net income (loss)	(2,543)	61,963

The Company also acquired 18 restaurants and a fifty percent interest in a corporation owning 10 restaurants in 1974 and 10 restaurants in 1973 in transactions accounted for as purchases. The cost of these units was $1,743,140 and $656,374 respectively and these costs exceeded the value of net assets acquired by $1,232,465 and $304,059 respectively. The operations of these units have been included in the accompanying financial statements from the respective dates of their acquisition. Following are consolidated results of operations of the Company on a pro forma basis assuming that units purchased during 1973 and 1974 had been combined at the beginning of 1973:

	1974	1973
Net sales	$99,806,978	$69,591,959
Equity in net income or loss of unconsolidated minority-owned affiliates	(4,525)	58,953
Net income	5,175,768	3,593,380
Net income per share:		
Primary	$1.54	$1.10
Fully diluted	1.53	1.09

NOTE C — LONG-TERM DEBT

	1974	1973
9¼% note payable in semi-annual installments of $300,000 from July, 1978 to January, 1988	$ 6,000,000	$ —
8¾% Senior Notes payable in annual installments of $250,000 from March, 1978 to March, 1987	2,360,875	2,350,375
Mortgage and equipment notes payable in monthly installments of $26,165, including interest at rates from 3% to 12% maturing at various dates to 1991	1,255,972	1,529,067
Notes payable to banks in quarterly installments of $100,000 plus interest at 1¼% over prime rate to December, 1976	1,100,000	1,500,000
Convertible notes due in 1976 and 1978 with interest at rates from 7% to 8%	1,096,000	225,000
Capitalized lease obligation		925,000
Other unsecured notes payable in monthly installments of $22,443 plus interest at rates of 4¾% to 9% maturing at various dates through 1979	1,070,849	487,308
	12,883,696	7,016,750
Less amounts due within one year	903,523	879,859
	$11,980,173	$ 6,136,891

The Senior Notes were issued with detachable warrants to purchase 87,500 shares of Common Stock at $9.25 a share. The $2,500,000 face amount of these notes has been reduced by the discount attributable to the warrants resulting in an effective interest rate of 9⅓%.

Property, plant, and equipment with a carrying value of approximately $2,150,000 has been pledged as collateral to the mortgage and equipment notes.

The convertible notes are convertible into shares of the Company's Common Stock at the following rates: $150,000 at $8.50 a share; $350,000 at $25.00 a share; $596,000 at $31.63 a share.

The Company has agreed, under certain long-term debt agreements, to maintain working capital of $1,200,000 and to maintain a current ratio of at least 1.5 to 1. The agreements also contain certain restrictions which, among other things, prohibit the payment of dividends or the purchase of the Company's Common Stock unless certain debt service and earnings tests are met. At April 1, 1974 under the most restrictive of these requirements retained earnings of $1,806,604 was unrestricted for such purposes.

Maturities of long-term debt for the next five years are as follows: 1975 — $903,523; 1976 — $801,030; 1977 — $812,736; 1978 — $513,500; 1979 — $2,054,556.

NOTE D — FUTURE LEASE COSTS

During the year ended March 31, 1974 the Company disposed of its "Next Door" division. The loss from the operations of this division was not material and it was disposed of at book value. In connection with this disposition, a provision for the future lease costs of six "Next Door" properties was established. In addition, certain other leased properties had been closed and the possibility of significant sub-leases were, in the opinion of management, highly unlikely. Therefore, the Company has established $800,000 for the present value of the future costs of the continuing lease obligations of these properties and charged this amount to selling,

general, and administrative expenses in the accompanying 1974 statement of income.

NOTE E — SALE AND LEASEBACK TRANSACTIONS

During 1974, the Company sold 38 Pizza Hut restaurants to outside parties for $5,118,000 and leased back the properties for periods of 20 to 23 years at annual rentals of $567,000. During 1973, the Company sold 11 Pizza Hut restaurants and an addition to the home office building to outside parties for $1,245,000 and leased back the properties for periods of 18 to 20 years at annual rentals of $135,000. No material gain or loss from the sale of the above properties was realized from this transaction. The above leases are considered to be financing leases and are included as such in the information shown in Note G.

NOTE F — STOCK OPTIONS

Under the terms of an employee stock option plan, the Company may grant options to officers and employees to purchase shares of its Common Stock at a price not less than the fair market value of the stock at date of grant. Activity under this plan is summarized as follows:

	Number of Shares	Option Price Per Share	Option Price Total
Outstanding April 1, 1972	52,582	$ 9.38 to $20.56	$ 675,478
Granted	27,850	17.13 to 30.00	546,229
Cancelled	4,383	9.38 to 26.81	71,690
Exercised	4,148	9.38	38,908
Outstanding March 31, 1973	71,901	9.38 to 30.00	1,111,109
Granted	86,500	15.13 to 16.75	1,420,056
Cancelled	14,425	9.38 to 28.48	274,528
Exercised	12,837	9.38 to 20.56	122,874
Outstanding March 31, 1974 (of which 16,677 were exercisable)	131,139	9.38 to 30.00	2,133,763
Became exercisable in 1973	13,188	9.38 to 20.56	167,172
Became exercisable in 1974	18,374	9.38 to 30.00	273,160

Under the terms of a deferred compensation agreement, a director of the Company will be granted options to acquire shares of the Company's Common Stock at $6.50 per share. The number of shares covered by these options accumulates until 1976 based on the extent of consulting services rendered by the director. At March 31, 1974, the director was entitled to purchase 3,735 shares under this agreement and approximately $10,000 annual compensation expense had been charged to income in 1973 and 1974.

At March 31, 1974, Common Stock was reserved as follows:

	Shares
Employee stock option plan	178,927
Warrants to purchase Common Stock at $9.25 a share	87,500
Convertible notes	50,493
Options under director's deferred compensation agreement	8,201
Other stock options	2,500
	327,621

NOTE G — LEASES

Total rent expense for all leases is summarized as follows:

	1974	1973
Financing leases:		
Minimum rentals	$6,038,767	$4,683,724
Contingent rentals	421,772	255,905
Other leases:		
Minimum rentals	1,673,574	1,366,583
Contingent rentals	75,851	26,089
Sublease rental income	(291,240)	(197,937)
	$7,918,724	$6,134,364

Contingent rentals represent mileage rates on transportation equipment and additional rentals on restaurant buildings based upon a percentage of sales.

The future minimum rental commitments as of March 31, 1974, for all noncancelable leases are as follows:

		Financing Leases		Other Leases	
	Total	Restaurants	Other Buildings and Equipment	Restaurants	Other Buildings and Equipment
1975	$ 8,033,937	$ 5,567,331	$1,021,046	$1,175,449	$270,111
1976	7,610,647	5,568,655	769,860	1,036,863	235,269
1977	7,188,572	5,565,055	637,663	921,294	64,560
1978	7,003,102	5,563,030	598,324	790,580	51,168
1979	6,669,538	5,557,090	446,039	619,141	47,268
1980-84	29,850,714	26,712,591	999,529	2,132,770	5,824
1985-89	21,304,329	19,118,619	726,480	1,459,230	
1990-94	9,192,948	8,391,955	142,396	658,597	
Thereafter	1,392,712	1,153,353		239,359	
	$98,246,499	$83,197,679	$5,341,337	$9,033,283	$674,200

The above commitments have not been reduced by anticipated rental income from existing noncancelable subleases in the approximate amount of $1,300,000. These subleases relate primarily to restaurants and generally cover a shorter term than the respective prime

lease. The restaurant leases generally include renewal provisions of from 5 to 20 years at the original rental rates.

The estimated present values of minimum lease commitments under financing leases (as defined by the Securities and Exchange Commission) are summarized as follows:

	1974	1973
Restaurants	$37,496,877	$34,215,246
Less: Sublease rentals	1,301,372	1,451,938
	36,195,505	32,763,308
Other buildings and equipment	2,949,028	2,858,779
	$39,144,533	$35,622,087

Interest rates implicit in the financing leases range from 5.9% to 14.9% for restaurants and 8.3% to 16.9% for other buildings and equipment (weighted average 9.8% and 12.5% respectively).

If all financing leases had been capitalized, it is estimated that net income for the years 1974 and 1973 would have been reduced by $555,000 and $490,000, respectively. This computation assumes that the estimated present values (including present values attributable to land) were amortized on a straight-line basis over the terms of the leases and that interest expense was accrued on the outstanding lease obligations at the rates shown above. The amounts included for amortization of leased property (including land) and interest expense were $2,852,476 and $3,834,952 respectively in 1974 and $2,326,892 and $3,269,521 respectively in 1973.

NOTE H — CONTINGENT LIABILITIES

The Company has guaranteed obligations of unconsolidated affiliated companies and others amounting to approximately $3,475,000.

At March 31, 1974, as a result of various transactions, the Company was guarantor of lease commitments of certain franchisees. The annual rentals and the estimated present value of these guaranteed leases is summarized as follows:

Transaction	Annual Rental	Present Value
Guaranteed for a fee	$ 437,011	$2,749,404
Guaranteed for minority interest	329,463	2,213,021
Formerly owned units sold to franchisees	263,376	1,601,757
	$1,029,850	$6,564,182

The disposition of litigations pending against the Company will not, in the opinion of management and legal counsel, result in a material adverse effect on the Company's financial position.

NOTE I — INCOME TAXES

Federal and state income taxes consist of the following:

	1974		1973	
	Current	Deferred	Current	Deferred
Federal	$4,768,500	($348,700)	$3,045,790	($206,400)
State	663,000	(30,300)	429,000	(8,600)
	$5,431,500	($379,000)	$3,474,790	($215,000)

The components of deferred income tax expense result from the following:

	1974	1973
Deferral of initial franchise fee income	$ 29,500	($138,500)
Provision for future lease costs	(400,000)	
Other timing differences	(8,500)	(76,500)
	($379,000)	($215,000)

The reasons for the difference between total tax expense and the amount computed by applying the statutory Federal income tax rate of 48% to income before income taxes are as follows:

	1974	1973
48% of pre-tax income	$4,902,828	$3,261,558
Add state taxes net of Federal tax benefit	329,000	218,608
	5,231,828	3,480,166
Deduct:		
Investment tax credit	(356,000)	(264,000)
Other	176,672	43,624
	(179,328)	(220,376)
	$5,052,500	$3,259,790

NOTE J — SUBSEQUENT EVENT

On May 23, 1974 the Company entered into an agreement to merge with Pizza Corporation of America, the Company's largest franchisee. Subject to the approval of a majority of the stockholders of each Company, the Company will issue .55 shares of its Common Stock for each share of Pizza Corporation of America Common Stock. If consummated, this transaction will require the issuance of approximately 1,200,000 shares of the Company's Common Stock and will be accounted for as a pooling of interests. Reported revenues and net income of Pizza Corporation of America were respectively $14,184,629 and $1,345,822 for the fiscal year ended March 31, 1973 and $24,226,971 and $2,150,487 for the fiscal year ended March 31, 1974.

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Stockholders and Board of Directors
Pizza Hut, Inc.
Wichita, Kansas

We have examined the consolidated financial statements of Pizza Hut, Inc. and its subsidiaries for the years ended March 31, 1974, and 1973. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of income, stockholders' equity, and changes in financial position present fairly the consolidated financial position of Pizza Hut, Inc. and its subsidiaries at March 31, 1974 and 1973, and the consolidated results of their operations, changes in stockholders' equity, and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Wichita, Kansas
May 23, 1974

Ernst + Ernst

History of growth, five year review

Fiscal Years ended March 31
(Dollars in thousands)

	1974	1973*	1972*	1971*	1970*
Net Sales	**$ 98,409**	$67,047	$49,006	$34,554	$25,404
Franchise Fees					
Initial	**$ 1,000**	$ 711	$ 433	$ 375	$ 460
Continuing	**$ 2,910**	$ 1,684	$ 1,024	$ 844	$ 524
Total Revenues	**$102,319**	$69,442	$50,463	$35,773	$26,388
Net Income	**$ 5,162**	$ 3,535	$ 2,079	$ 1,327	$ 974
Percentage to Net Sales	**5.2**	5.3	4.2	3.8	3.8
Earnings Per Share**	**$ 1.52**	$ 1.08	$ .69	$ .46	$ .34
Working Capital	**$ 8,177**	$ 5,486	$ 1,750	$ (217)	$ (346)
Current Ratio	**1.82**	1.77	1.33	.96	.92
Stockholders' Equity	**$ 27,949**	$22,566	$12,679	$ 9,831	$ 8,365
Percentage Return on Stockholders' Equity	**22.9**	27.9	21.1	15.9	13.6
Total Assets	**$ 51,485**	$36,622	$24,943	$17,974	$15,373
Number of Restaurants					
Company Owned	**623**	490	359	259	218
Franchise System	**864**	640	496	409	304
Total	**1,487**	1,130	855	668	522

*Restated

**Fully diluted — assuming exercise of options, warrants, and conversion of convertible notes.

Principal Officers

*Frank L. Carney,
President, Chairman of the Board, and Chief Executive Officer

*Robert E. Cressler,
Senior Vice President — Operations

*Farris S. Farha,
Senior Vice President — Administration

*William C. Ferril,
Senior Vice President & Chief Financial Officer

Joseph P. Flynn,
Vice President — International

Robert L. Logsden,
Vice President — Marketing & Research

Kenneth R. Miller,
Vice President — Pizza Operations

Larry F. Payne,
Vice President — Franchise

John H. Songer,
Vice President — Property Management

M. Hal Taylor, Ph.D.,
Vice President — Distribution & Food Processing

Daniel J. Taylor,
Treasurer & Chief Accounting Officer

Gerald T. Aaron,
Secretary & Counsel

Albert J. Kirk,
Assistant Secretary & Associate Counsel

*Executive Committee

Executive Personnel

Accounting
Max Sutton, Controller

Facility & Equipment Design
Gary A. Davis, Director

Fiesta Cantina
Gary Moore, Director

Financial Services
David G. Carr, Director

Franchise
Allen L. Brodecker, Director of Operations
Dale E. Wiggins, Director of Development

Human Resources (Personnel)
Lawrence J. Faflick, Acting Director

International Operations
Frank Holdraker, Director

Investor Relations
A. Tracy Burton, Director

Management Information Services
Carl L. Phillips, Director

Marketing
Sam E. Moyers, Director

Office Services
Lois Bird, Director

Pizza Division, Domestic
Richard M. Bennett, Director of Operations
Hollis Hill, North Central Regional Manager
Frank Holdraker, Northeast Regional Manager
H. Roger Karolick, South Central Regional Manager
James Murty, Midwest Regional Manager
Michael Niemann, Western Regional Manager
James E. O'Donnell, California Regional Manager
James W. Tucker, Southeast Regional Manager

Property Management
Gene W. Danitschek, Director of Construction
Kelton Markwell, Director of Excess Properties
Walter E. Murphy, Jr., Director of Development
Ronald D. Watson, Legal Counsel

Public Relations
Herm Bachrodt, Director

Quality Assurance
Ronald R. Galyean, Director

Research & Development
Ronald D. Galyean, Acting Director

Restaurant Research
Larry L. Strahm, Director

Training
William J. Walsh, Jr., Director

Subsidiaries

Franchise Services, Inc.
Leonard Ebersberger, Vice President — Materials Management
Thomas W. Orr, Vice President — Sales
Michael W. Dart, Controller

J & G Products, Inc.
Michael D. Erickson, General Manager

International Subsidiaries

Pizza Hut Australia Pty., Limited
Jack Kelly, Managing Director

Pizza Hut (Canada), Ltd.
Al Stewardson, Toronto Regional Director

P. H. Industries, Ltd.
Lou Dawson, Vancouver, Edmonton, Winnipeg (Canada) Regional Director

Pizza Hut (U. K.), Ltd.
James McPeak, Managing Director
Ashley Stevens, Director of Operations

Pizza Hutte GmbH
James McPeak, Managing Director

Pizza Hut del Distrito, S.A. de C.V.
Roby Swan, Managing Director (Mexico)

Joint Venture

Pizza Hut Japan, Ltd. (Pizza Hut, Inc. & Sumitomo Shoji Kaisha, Ltd. and Asahi Breweries Ltd.)
T. Shinohara, President
Robert G. Hooper, Vice President

Franchising's seal of excellence.
We are proud to be a member of this organization, and fully subscribe to its code of ethics.

An important new service for Pizza Hut shareholders with stock held in brokerage accounts

We believe Pizza Hut shareholders desire to receive as much information about their company as possible and we want to communicate with all our shareholders, including those whose stock is held in brokerage accounts rather than in their name.

We want to insure that you receive all quarterly reports and other shareholder material as rapidly as possible. Currently, we send reports to all brokerage houses that request them, and they in turn forward them to you. At best there is an unnecessary delay. We would like to mail the report to your home or business directly from Pizza Hut, Inc.

If you believe in the necessity of information and want to be placed on our special shareholders' list, please complete and return the postcard at right. This will assist us in sending shareholder information to all our shareholders at the same time.

Frank L. Carney
President, Chairman of the Board
& Chief Executive Officer

I would like to be placed on the special mailing list of Pizza Hut, Inc. to receive interim reports and other shareholder material when available.

Name ______________________

Address ______________________

City ______________ State ______________ Zip Code ______________

COMMENTS: ______________________

____

New Corporate Logotype
In looking to the future, we have adopted the new contemporary logotype shown above as our official graphic signature. This is the first step in a continuing program designed to enhance the recognition and awareness of our name and identification with the public.

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